VZCZCXYZ0000
OO RUEHWEB

DE RUEHKV #2139/01 2981520
ZNY CCCCC ZZH
O 241520Z OCT 08
FM AMEMBASSY KYIV
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6621
INFO RUCNCIS/CIS COLLECTIVE IMMEDIATE
RUEHZG/NATO EU COLLECTIVE IMMEDIATE
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC IMMEDIATE
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC IMMEDIATE
RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE

C O N F I D E N T I A L KYIV 002139

SIPDIS

DEPT FOR EUR, EUR/UMB, EEB/OMA
TREASURY FOR TTORGERSON

E.O. 12958: DECL: 10/24/2018
TAGS: EFIN PGOV PREL ECON ETRD XH UP
SUBJECT: EBRD: UKRAINE NEEDS $20 BILLION IMF PACKAGE "TO SHOCK MARKETS" BACK TO LIFE

REF: A. KYIV 2030 AND PREVIOUS
¶B. KYIV 2138

Classified By: AMBASSADOR WILLIAM B. TAYLOR, REASONS 1.4(B) AND (D)

1.(C) Summary. EBRD Senior Advisor Piroska Nagy told the Ambassador on October 24 that the IMF's support package for Ukraine will likely top $20 billion. Such a sum was necessary to reestablish confidence in Ukraine because current rumors of the package's size -- anywhere between $3 and $15 billion -- were already priced into political and market expectations and not sufficient to "shock the markets" back to life. Until recently an economist at the IMF, Nagy said the leadership of the current IMF delegation in Kyiv was competent yet inexperienced in negotiating deals of this magnitude. She also criticized the IMF for failing to reach out to foreign banks to cajole them to support their Ukrainian subsidiaries. Nagy asked for Embassy support of an EBRD-backed bid for hobbled Prominvest Bank, perhaps in concert with another "reputable" private-sector bank, despite what she characterized as World Bank support for the nationalization of Prominvest's assets. End Summary.

2.(C) On October 24, EBRD representatives Nagy and Alexander Pivovarsky provided the Ambassador with a readout on the fluid negotiations between Ukraine and the IMF. Based on her conversations with IMF officials, Nagy emphasized that a unified Ukrainian government commitment was an extremely important precondition for any agreement. (Note: As of October 24, the Verkhovna Rada has still not agreed on any of the three anti-crisis legislative packages proposed by President Yushchenko, PM Timoshenko, and opposition Party of Regions leader Viktor Yanukovich (Ref B)). Nagy said that both the GOU and the market were now expecting a package worth about $15 billion. In her view, this figure is already entrenched in both political and economic expectations and may now not be enough to unfreeze markets and reestablish confidence in Ukraine quickly. She added that politicians may not yet understand the severity of the situation and, in her view, the stakes for Ukraine's politicians "messing up" their country needed to be bigger. Only when politicians felt they had something to lose could the current impasse and general lack of policy coordination be overcome. She called the IMF,s pegging packages to country-specific quotas as "old stuff" that no longer had resonance in the global financial crisis. Nagy indicated that the package would very likely exceed $20 billion, a figure she believed was necessary to "shock the markets" beyond current expectations and get credit flowing again.

3.(C) Nagy said that IMF representatives needed to talk to foreign banks, mostly located in Western Europe, that had a

presence in Ukraine in order to coordinate programs for ensuring the solvency of key Ukraine subsidiaries. She surmised that no one had yet "picked up the phone" to speak with Western banking leaders, despite the fact that, in her opinion, this should be the IMF's role in a crisis setting. Until recently a senior economist at the IMF, Nagy expressed doubt about the IMF delegation's capacity to steer through some of the difficult policy considerations, especially in light of the global financial crisis, and she described chief IMF envoy Ceyla Pazarbasioglu as technically sound, especially in financial sector matters, but inexperienced in negotiating financial packages. She worried that, because the IMF had not recently overseen financial assistance packages in Europe, its "know-how is still developing" while important decisions are being made rapidly in the field. Nagy concluded that the IMF should be in especially close contact with U.S. and European embassies, and she pledged to facilitate a meeting between Ambassador Taylor and Pazarbasioglu. (Note: the meeting has been scheduled for October 25. End note).

¶4. (C) Nagy described Ukraine's banking crisis as a combination of poor access to capital markets and a consequence of reckless expansion and risky loans. She said that the World Bank is taking the lead among Ukraine-based international financial institutions in categorizing the solvency and liquidity of individual banks. But she expressed concern that World Bank representatives had been advising government officials to nationalize troubled financial institutions, such as Prominvest Bank. In her opinion, any increase in state-controlled banks, especially in light of the lack of technical expertise at the National Bank to resuscitate failed banks, would be a worrying development. She added that privatization talks between the National Bank and potential investors were lacking transparency.

¶5. (C) Nagy asked the Ambassador for embassy support in EBRD's effort to reach out to reputable banks and put together a privatization offer for Prominvest Bank. She felt that a transparent privatization program for Prominvest would send a necessary signal to investors, as well as set a precedent for other bank bailouts that may be in Ukraine's immediate future. The Ambassador offered to put them in touch with key Western bankers in Kyiv.
TAYLOR